

Minutes

SALES RATIO TECHNICAL ADVISORY MEETING

October 14, 2005

Attendees:

Dr. Ron Wasserstein, Washburn University
Dr. Glenn Fisher, Wichita State University
Nancy Tomberlin, PVD, Ratio Study Coordinator
Joan Pagel, PVD, Research Analyst
Bruce Wright, Kingman County Appraiser
Sue Poltera, Reno County
Truette McQueen, Ottawa County Appraiser

Dr. John Boyer, Kansas State University
Pete Davis, PVD, Ratio Study Supervisor
Melissa Newton-Blume, PVD
Peggy Huard, PVD, Research Analyst
Barry Porter, Republic County Appraiser
Jerry Denney, Gray County Appraiser
Crystal Gile, Research Analyst to Dr. Fisher

- **Introductions** – Pete Davis
- **Overview of the 2004 Final Ratio Study Report** by Nancy Tomberlin.

Global view – based upon total value statewide

Residential Median Ratio – Confidence Interval

In Compliance	100.00%
Out of Compliance	0.00%

Residential Coefficient of Dispersion – Confidence Interval

In Compliance	99.71%
Out of Compliance	0.29%

Residential Price-Related Differential – Confidence Interval

In Compliance	97.42%
Out of Compliance	2.58%

Commercial Median Ratio – Confidence Interval

In Compliance	99.61%
Out of Compliance	0.39%

Commercial Coefficient of Dispersion – Confidence Interval

In Compliance	95.89%
Out of Compliance	4.11%

Commercial Price-Related Differential – Confidence Interval

In Compliance	95.61%
Out of Compliance	4.39%

2004 Hearings:

Forty counties appealed 312 sales. Decisions were:

No Change	138
Adjusted	24
Invalid	150

- **Overview of the 2005 Mid-Year Ratio Study** by Nancy Tomberlin. See handout.

2005 Mid-Year Informal Hearings. Three counties with 11 sales were submitted for informal hearings.

Global view – total value statewide

Residential Median Ratio – Confidence Interval

In Compliance	99.41%
Out of Compliance	0.59%

Residential Coefficient of Dispersion – Confidence Interval

In Compliance	99.55%
Out of Compliance	0.45%

Residential Price-Related Differential – Confidence Interval

In Compliance	99.14%
Out of Compliance	0.86%

Commercial Median Ratio – Confidence Interval

In Compliance	93.50%
Insufficient Sample Size	2.60%
Out of Compliance	3.90%

Commercial Coefficient of Dispersion – Confidence Interval

In Compliance	82.90%
Insufficient Sample Size	2.60%
Out of Compliance	14.50%

Commercial Price-Related Differential – Confidence Interval

In Compliance	74.60%
Insufficient Sample Size	2.60%
Out of Compliance	22.80%

	Residential	Commercial
90% Level of Confidence – 5 sales	1	7
85% Level of Confidence – 4 sales	1	9
70% Level of Confidence – 3 sales	0	11

After the mid-year study results were sent out, approximately 25,000 records for the last 6 months were merged with the ratio study database.

	Received	Data Entry Completed
July	77	76
Aug.	61	57
Sept.	2	1

Informal Hearings at the local level: PVDINFCG and PVSHOPCG, 17 reports received; certified and or subclasses have been adjusted (91 Residential; 15 Commercial).

- **Issue: Changes to residential sampling program** by Pete Davis. See attached Issue Paper. The PVD Field Appraisers working in some of the smaller sampling counties may be required to review almost sale each month in order to meet their stratum goals. The Field Appraiser may go through every SVQ filed and still fall short of meeting goals set for the month. Pete proposed two options: 1. Drop the minimum sample size to 150, or less; 2. Discontinue sampling and validate all residential sales.

For several of the smaller sampling counties, the field staff is reviewing every sale in order to meet their targets. The targets were lowered in 15 counties for the 2005 Ratio Study year in order to eliminate the need to review every SVQ. The extra work required by field staff and by Topeka support staff to implement residential sampling is not worth the added precision if they are reviewing every sale to meet all of their targeted goals. Would the Technical Advisory Committee object to a sample size of 150 next year? Or, another option is to not sample the smallest of the eligible counties since filling the buckets means reviewing most of the sales. The committee did not object to a sample size of 150. Ron stated it would probably leave a pretty small margin of error with 150 or even 100 sales. Pete suggested that we could test Sumner County using both options mentioned above in order to determine if a sample size of 200 is too high of a goal. For 2006, we could use 150 to see how this affects the confidence intervals.

- **Review of 2005 Sales Validation Procedures** by Pete Davis. Pete reviewed the validation procedures that were effective in April/May in order to reduce the sale validation workload of the Field Staff.
- **Issue: Impact of revised sales validation procedures** by Pete Davis. See attached Issue Paper.

The new procedures were requested by the Bureau Chief in order for the Field Staff to free up time to work on new CAMA (Orion), the grain elevator guide and other priorities.

No major changes implemented for commercial/industrial sale validation. Commercial sales in sampling counties with mixed-use, will eligible if commercial use is equal to or greater than 90%. For non sampling counties if 75% or more of the appraised value is in commercial use, we will use the sale as commercial in the Ratio Study.

For residential properties, Kansas Real Estate Sales Validation Questionnaire will serve as the primary qualification vehicle. No phone calls will be made. No sale price adjustments will be made if personal property is less than 5%. If the adjustment is more we will invalidate the sale. Multi-parcel sales are no longer included. No follow will be made on extreme ratios.

There was a related discussion of population loss in western counties and its impact on the housing market. Values are increasing but the population is declining in Cloud County and other rural western counties. An increase of rental properties has also been noted in Cloud. Residents are walking away from their mortgages on real estate, so the bank repossesses the property and resells it. People who are staying are upgrading to better homes. What happens to the vacant dwellings?

No major shifts have been noted in the 2005 Mid-year ratio study results from the validation methodology changes.

- Nancy Tomberlin discussed the 2005 IAAO Conference in Anchorage. Nancy along with Alan Dornfest, Bob Gloudemans, and Tim Wooten by telephone conference, presented to the audience the major changes to the 1999 Ratio Study Standard. Her presentation covered the importance of sales validation prior to running statistical analysis and the changes to the sales analysis portion of the Standard. The session was well-attended and numerous questions were asked by the attendees.

Nancy also stated that Pete received the Bernard L. Barnard, *outstanding Technical Essay Award*, for a paper written by Alan S. Dornfest, AAS, Alex Chizewsky, CAE and Pete, *Alternate Methods of Addressing Ratio Study Outliers*.

- **Update on IAAO Technical Standards Committee** by Pete Davis. Pete takes over this year as chair of this committee. Pete believes the revision to the 1999 version of the IAAO Standard on Ratio Studies has not been headed in the best direction. He spoke about making taking the Ratio Study Standards more useful for local assessors and mass appraisers. He plans to take the revision process in a different direction in order to address USPAP Standard 6 requirements. USPAP Standard Rule 6-6 requires that assessors “employ recognized mass appraisal testing procedures to ensure that standards of accuracy are maintained”. Some commenters have noted that the current IAAO Standard on Ratio Studies was written by State oversight agencies for State oversight agencies instead of a model performance evaluation tool for the local appraiser/assessor. The current draft of the Ratio Study Standard is too technical in many areas. Pete proposes to move language on equalization and other oversight issues to either an appendix or a different standard.
- **KDOR Study of Exempt Property** by Dr. Glenn Fisher. See attached Proposal. Dr. Fisher stated instead of “erosion” as the title of the issue paper, it should be “changes”. Dr. Fisher is doing a study for the Secretary of Revenue on the changes in the tax base in Kansas. He will be listing the history of the changes of the tax base and the growth of exemptions. He will be looking at classification and the shifts that occurred. He will be looking at the financial impact of the homestead programs, discussing the administrative procedures appraisers go through and the costs associated with them. The study will cover more than real property. He will be constructing a questionnaire that he will be sending out to the county appraisers through the KCAA. He requested the county appraisers point out any specific problems they have encountered.

The county appraisers on the Ratio Study Technical Advisory Committee agreed to help Dr. Fisher with the questionnaire and get it ready to send it out to all county appraisers.

Ratio Study Issue: What is the minimum sample size that should be established for residential sampling counties? And, what should the ratio of selected sales to the pool of residential sales be?

BACKGROUND:

When the residential sampling process began in 1994, PVD set a sample size goal of 300-400 valid sales per county. However, some counties eligible for residential sampling (those with 15,000 parcels or more) did not have 300 valid sales per year or required 95%+ of the pool to be examined to achieve the sample goals. In later years, the minimum sample size was lowered to 200 in counties with the smallest pool of sales. We are still encountering problems meeting our sample size goals in our smallest counties.

ISSUE:

Residential sampling can help obtain a more representative sample, but the ratio of valid pool size to selected sales needs to be approximately 2/3. This requires a ratio of approximately 2/6 when the number of valid residential sales in a representative sample is compared to the total number of residential sales. If this ratio cannot be achieved, the field staff appraiser may review every residential sale in most months to meet the sample size goal. The additional work required to validate sales through the sampling program application becomes very inefficient. In addition, it requires more effort by the Topeka staff to process the data.

PROPOSAL:

The minimum sample size for residential sampling counties should be no lower than 200. In counties with few sales to work (at least 300 potentially valid sales or 600 residential transfers per year), residential sampling should not be attempted.

Problem counties in 2005 Mid-Year Ratio Study results:

028 Finney – 97 sales validated. 269 sales reviewed out of 278
029 Ford – 91 sales validated. 246 sales reviewed out of 262
050 Labette – 90 sales validated. 225 sales reviewed out of 238
096 Sumner – 105 sales validated. 238 sales reviewed out of 250

Ratio Study Issue: Has the revised residential sales validation procedures impacted the mid-year ratio study performance measures?

BACKGROUND:

In late March 2005, the Bureau Chief requested changes to the ratio study sales validation procedures to free up more time for field staff to spend on implementation of New CAMA (Orion) and other assignments. The ratio study section revised the residential sales validation procedures and reduced the workload by approximately 50%. The changes called for automatically excluding residential sales that require further research (telephone interviews, verification for adjustments), confirmation, or processing time. Information on the sales validation questionnaire became the sole source for validation. Sales that require additional verification work have not been included in the ratio study. They are either invalidated or coded as “unqualified”. At the same time some changes were implemented to help obtain more valid commercial sales for the ratio study. The new procedures were implemented in early April (and took effect immediately).

ISSUE:

Have these changes distorted the performance measures for the residential subclass? At the time these validation changes were implemented, we believed that many of the “unqualified” sales would have been considered potential outliers anyway. If these were eliminated during the validation stage, we could see a larger percentage of counties with better than expected ratio study results compared to last year. If some of the “unqualified” sales were also true outliers then we would expect to see fewer trimmed sales. If the percent of outliers did not drop the trim process may be removing too many sales with legitimate ratios.

Comparison data:

Residential

Valid sales 2004 Mid-Year Ratio Study (non-sampling counties): 3,638

Valid sales 2005 Mid-Year Ratio Study (non-sampling counties): 3,740

In 2004, 101 counties had sufficient sample sizes to develop confidence interval estimates that were reported in the Mid-year Ratio Study.

For Mid-Year Ratio Study 2004: 10.1% of sales were trimmed

For Mid-Year Ratio Study 2005: 9.6% of sales were trimmed

Counties out of compliance on the 2004 Mid-Year Ratio Study - median ratio: 0

Counties out of compliance on the 2005 Mid-Year Ratio Study - median ratio: 1

Counties out of compliance on the 2004 Mid-Year Ratio Study - COD: 4

Counties out of compliance on the 2005 Mid-Year Ratio Study - COD: 7

Counties out of compliance on the 2004 Mid-Year Ratio Study - PRD: 7

Counties out of compliance on the 2005 Mid-Year Ratio Study - PRD: 7

Commercial

In 2004, 29 counties had sufficient sample sizes for confidence interval estimation reported in the Mid-Year Ratio Study.

For Mid-Year Ratio Study 2004: 507 valid sales were validated and 5.7% were trimmed.

For Mid-Year Ratio Study 2005: 556 valid sales were validated and 5.6% were trimmed

Counties out of compliance on the 2004 Mid-Year Ratio Study - median ratio: 2

Counties out of compliance on the 2005 Mid-Year Ratio Study - median ratio: 2

Note: an additional 3 counties in 2005 have been identified with median ratio compliance problems. Comparison with 2004 results was not possible.

Counties out of compliance on the 2004 Mid-Year Ratio Study - COD: 3

Counties out of compliance on the 2005 Mid-Year Ratio Study - COD: 7

Note: an additional 6 counties in 2005 have been identified with COD compliance problems. Comparison with 2004 results was not possible.

Counties out of compliance on the 2004 Mid-Year Ratio Study - PRD: 4

Counties out of compliance on the 2005 Mid-Year Ratio Study - PRD: 5

Note: an additional 7 counties in 2005 have been identified with PRD compliance problems. Comparison with 2004 results was not possible.

Conclusion:

It does not appear that the changes to the residential validation procedures have resulted in a more relaxed or gentler evaluation process. The performance statistics still seem to identify counties with problems.

In the commercial subclass, the change in procedures has increased in the number of valid sales. No major changes have been noted with the performance statistics.

We will continue this evaluation for the balance of 2005 and through 2006 to track the impact.

Proposal: A Study of Property Tax Base Erosion in Kansas

Principal Investigator: Dr. Glenn W. Fisher, Regents Professor Emeritus of Urban and Public Affairs, Hugo Wall School of Urban and Public Affairs, Wichita State University.

We propose a study of the erosion of the Kansas property tax base that will summarize the history of changes in the base and the estimate the current revenue cost. We will identify the impacts on municipalities and political subdivisions, taxpayer groups, areas, and regions whenever possible.

The report will include a brief historical account of the property tax in Kansas and in the United States, will indicate the historic and present importance of the tax as a source of revenue for local governments, and will appraise the role of the property tax in the federal system.

Sources of data include previous studies of Kansas taxation, state statutes, reports of the Division of Property Valuation, Kansas Department of Revenue, and unpublished data from the same agency. We will request data from county appraisers, the Board of Tax Appeals, and the Legislative Research Department as needed.

We will develop a working definition of tax base erosion, list the legal basis for each source of erosion, and classify by purpose, administrative procedures, or other criteria as it appears to be useful and feasible. For example, some exemptions such as the exemption of religious and charitable property have a long history and were part of the original property tax statute in Kansas. Others, such as the exemption of federal property, are required by the U.S. Constitution. Other exemptions were authorized by amendments to the Kansas Constitution. Still others were enacted to simplify administration or to promote economic development or to encourage or discourage certain kinds of economic activities.

The financial impact of rebate programs such as the homestead programs will be included in the study. The impact of classification will be analyzed, at least briefly.

We will describe administrative procedures and attempt to indicate the additional labor required to administer exemptions, including both that of local appraisers and state officials. The current revenue cost of exemptions will be estimated to the extent data permit. The Division of Property Valuation tables showing the amount of exemption for broad classes will be expanded using unpublished data available from the division.

If, as is often assumed, appraisers give low priority to updating the values of exempt property, the reported values for exempt property are probably less than the actual market value. Sales data on exempt property compiled by the Division of Property Valuation will be used to estimate market values whenever possible.

The report will outline feasible policy alternatives available to state and local policy makers in Kansas and will not make policy recommendations.